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ABSTRACT

This report examines performance funding and performance budgeting in public higher education, based on studies conducted by the Nelson A. Rockefeller Institute of Government (New York). A recent survey indicated that 10 states currently have performance funding for public colleges and universities, that 8 states currently use performance budgeting, and that two-thirds either have performance funding/budgeting or are planning to adopt such programs within the next five years. Existing performance funding programs in 9 states were examined, revealing the existence of from 5 to 37 performance indicators, which vary in many respects. Six of the nine states set statewide indicators for all institutions or campus types, while three allow institutions to choose at least one of their own indicators. Policy recommendations in regard to the use of performance funding and indicators are included. The report concludes by noting that although it is too soon to tell whether performance funding is a fad or trend, the desirability of performance funding, in theory, is equaled by its difficulty in practice. (MDM)

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Joseph C. Burke & Andreea M. Serban
Public Higher Education Program

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Reinventing government shifts public management from a regulatory to a results paradigm. Performance budgeting, which considers the results achieved as well as the resource needs of government programs, is now in vogue at the federal, state, and local levels. The U.S. Government Performance and Results Act of 1993 requires all federal agencies to submit strategic plans to the Office of Management and Budget by September 30, 1997, followed by annual performance plans for all of their programs. The ultimate goal is to tie funding to performance. The National Association of State Budget Officers estimates that a quarter of the states consider performance in the budgeting process for all or some of their agencies. Local governments are also looking at performance when funding their programs and services.

Public Higher Education: A Prominent Example

Public higher education may be leading this move toward funding for results at the state level. Performance funding or budgeting, once unthinkable for state campuses, is now becoming fashionable in state capitols. Competition for limited resources with health care, welfare, corrections and K-12 education and complaints about poor performance are pushing states to consider campus performance on public priorities in their funding of public colleges and universities.

Traditionally, states have funded campuses based on current costs, inflationary increases, and projected enrollments. These input factors reflect what institutions require in tax support rather than what states desire from public higher education. This practice ignores outputs and outcomes, such as the quantity or quality of college graduates or the research and service provided to the states and their

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citizens. The new approach links tax support to institutional results on performance indicators that reflect state priorities. States have long provided money up front to encourage desired results. Now, the money would come only for achieved, rather than promised, performance. Budgeting has shifted from what states should do for their campuses to what campuses should do for their states.

Supported by The Pew Charitable Trusts, the Public Higher Education Program at the Rockefeller Institute has studied the use of results in the funding of state colleges and universities. States budget for performance in two ways. **Performance funding** ties special sums directly to results on specific indicators. In **performance budgeting**, governors and legislators consider reports of results on performance indicators as a factor in the total funding of public colleges and universities. Our recent survey of State Higher Education Finance Officers in the fifty states, Puerto Rico, and the District of Columbia demonstrates the growing popularity of using performance results in the funding of public higher education. *This survey showed that ten states currently have **performance funding** for public colleges and universities; and eight of those states are likely to continue their programs. Moreover, an additional seventeen states and the District of Columbia are likely to tie special funding to specific results in the next five years.*

Table 1. Performance Funding for Public Higher Education

States that adopted performance funding	*States likely to continue performance funding*	*States likely to adopt performance funding*
Colorado	Colorado	Alaska
Connecticut	Florida	District of Columbia
Florida	Minnesota	Illinois
Kentucky	Missouri	Indiana
Minnesota	Ohio	Louisiana
Missouri	South Carolina	Maine
Ohio	Tennessee	Maryland
South Carolina	Washington	Massachusetts
Tennessee		Nebraska
Washington		Nevada
		New York
		North Dakota
		Oregon
		South Dakota
		Texas
		Utah
		West Virginia
		Wyoming

In addition, eight states (including Florida, which also has performance funding) have ***performance budgeting** for their colleges and universities, six of which are likely to continue these programs in the next five years. Seventeen more states and the District of Columbia are likely to adopt performance budgeting in the next five years.*

Table 2. Performance Budgeting for Public Higher Education

States that adopted performance budgeting	*States likely to continue performance budgeting*	*States likely to adopt performance budgeting*
Alabama	Alabama	Alaska
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Idaho	Idaho	Georgia
Kansas	Rhode Island	Indiana
Nebraska	Texas	Louisiana
Rhode Island		Maine
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The growing popularity of considering results in the funding of state colleges and universities is clear. Our survey shows that *two-thirds of the states, Puerto Rico, and the District of Columbia either have or are likely to adopt programs that use results in their budgeting for public higher education.*

Performance Funding in Nine States

The Rockefeller Institute study also examined in detail performance **funding programs** in nine states: Arkansas (legislation ended the program this year), Colorado, Florida, Kentucky, Minnesota, Missouri, Ohio, South Carolina, and Tennessee. Most states started their programs in the first half of the 1990s, except for Tennessee, which formally adopted performance funding in 1979. In Colorado, Minnesota, Ohio, and South Carolina, legislation mandated the program and prescribed the indicators. In Florida and Kentucky, legislation mandated the program but allowed higher education coordinating agencies, in consultation with campus leaders, to propose the indicators. In Arkansas, Missouri, and Tennessee, coordinating agencies, working with institutional leaders, initiated and implemented the program without legislation. The method of initiation influenced the critical choices of performance indicators and their relative weights, success standards, and funding levels.

Performance Indicators

Although the number of performance indicators used in the nine states ranges from a high of thirty-seven to a low of five, they typically run from seven to sixteen. Most states either use the same measures for all campuses or provide an alternative item for two- and four-year institutions.

Six of the nine states set statewide indicators for all institutions or campus types, but three allow colleges or universities to chose at least one of their own indicators. These performance programs slight input measures, which reflect the resources received, in favor of output and outcome indicators, which stress results. However, over forty percent of the indicators are process measures, which focus on the method of delivering programs and services. This reliance on process items reflects the difficulty of devising indicators that measure results in higher education. It also suggests, to some extent, the popularity of the total quality and good practices movements, which stress improving services to clients and students. The indicators imply a concern for efficiency and quality, but they suggest a different notion of quality than that traditionally held in academic circles. Quality in higher education has long been awarded only to rich and famous institutions, with the most resources, the brightest students, the best researchers. The performance indicators suggest a new notion of quality based on services to students and society rather than resources and reputations.

Indicators in all nine states stress undergraduate education. The indicator choices reveal more diversity than commonalty. Only retention and graduation rates appear in the performance programs of nearly all the states. Other indicators used by half or more of the states include test scores on professional exams, transfers between two- and four-year campuses, faculty teaching load, and credits on graduation/time to degree. Indicators for four-year institutions also favor use of technology/distance learning; those for two-year colleges often add job placements.

Indicator Weights, Standards, and Funding

Two of the nine states use the same funding weights for all indicators, while seven have designated, but different, weights for their measures. Most states choose institutional improvement as their success standards, though, at times, with thresholds and targets. Some allow an alternate choice of comparisons with the performance of state or national peers. South Carolina mandated the unique concept of 100 percent funding based on performance. The other states allocate from less than 1 percent to 3.4 percent of the tax support for the operating expenses of their public colleges and universities. Six states restrict performance funding to additional appropriations beyond base budgets, while three require reallocation of all appropriations.

Opinions on Performance Funding

Our recent survey of the attitudes toward performance funding of state and campus leaders in the nine states indicated more agreement than anticipated:

- Respondents consider retention/graduation rates, job placement, licensure exam scores, and employer satisfaction surveys as the most appropriate performance funding indicators, and administrative size/cost, time-to-degree, and student ethnic and gender diversity as the least appropriate.
- Selection of performance indicators and success standards and the protection of mission diversity are seen as the major difficulties in performance funding.
- Improved higher education, increased accountability, and emphasis on results are perceived as the major advantages of performance funding; the difficulty of measuring results in higher education is seen as its main disadvantage.
- State policy makers tend to forecast a favorable future for performance funding, while campus representatives think its future is uncertain.

Recommendations

Our study suggests the following recommendations to state and campus policy makers:

1. Performance funding requires collaboration between state and campus policy makers to ensure consideration of both external and internal concerns.
2. State prescription of indicators is too restrictive, but a general mandate can convey the sense of seriousness and inevitability required to spur campus reforms.
3. Government policy makers must realize that achieving results in higher education takes time; and campus leaders must recognize that improving performance should not take forever.
4. The choice of performance indicators should reject the belief that external accountability and institutional improvement — and efficiency and quality — are conflicting rather than complementary goals.
5. The choice of indicators should reject the resource and reputation model of institutional excellence and reflect service to students, the state and society.
6. Some common indicators combined with several separate measures for two- and four-year institutions would emphasize their different missions without neglecting their common goals.
7. Institutional improvement with thresholds and targets seem the best and the fairest standard of success.
8. Small sums allocated to performance funding can produce results without causing budget instability.

Funding for Results: Fad or Trend?

It is too soon to tell whether funding public higher education for results is a fad or a trend. Critics claim that it will go the way of the Program Planning Budgeting, Zero-based Budgeting, Management by Objectives, and other efforts to rationalize government budgeting. Advocates assert that constrained resources and competing demands will push governments to consider costs/benefits and program results in funding allocations.

One conclusion is clear: *the desirability of performance funding, in theory, is equaled by its difficulty in practice*. It requires a level of collaboration, patience, and persistence that is seldom found in government decision making. The critical importance of higher education to students and states in a knowledge and information society suggests that both state and campus policy makers should tackle this challenging task. Taxpayers are not likely to accept the concept that results count in every endeavor except government budgeting.

Sources

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Joseph C. Burke and Andreea M. Serban, *Performance Funding and Budgeting for Public Higher Education.* Albany, NY: Rockefeller Institute, 1997.

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Description of The Public Higher Education Program

The Public Higher Education Program seeks practical approaches to the critical issues facing colleges and universities by combining the expertise and effort of practitioners and researchers in higher education with the contributions and concerns of trustees and opinion leaders in government, labor, and business. The Program enlists the major stakeholders in higher education in a common effort to link policy development with pragmatic research, citizen and constituent commitment, and effective implementation. Its goal is to move major policy issues in public higher education from divisive debate to reasoned discussion and, hopefully, to rational resolution.

Public Higher Education is much too important to students, states, and society to be left to partisan politics of state policy makers or the self-interest of campus partisans. Currently, public debate generates more conflict than understanding and divides state colleges and universities from their external publics, who are essential to their support and success. Much of the research on higher education has limited impact, because academic administrators see it as too impractical or controversial. It is not used or even read by trustees, faculty, or government officials because it too often fails to answer their repeated questions or provide realistic suggestions. Efforts at reform have faltered because they have failed to involve all of these parties together in policy formulation and implementation. Failure has also occurred because trustees have not been provided with effective methods for fulfilling their pivotal role of reconciling external demands for fundamental change with the internal needs of collegial governance.

For too long the internal constituents and the external supporters of higher education have talked at, rather than with, one another. At a time when critics, including friends, call for more accountability and better performance, a Public Higher Education Program is needed that can engage all of the natural advocates of educational reform in a reflective search for realistic ways to help higher education become more effective and efficient.

Current Projects

Performance Funding

The Pew Charitable Trusts has funded the Program for a two-year study of performance funding programs in nine states: Arkansas, Colorado, Florida, Kentucky, Minnesota, Missouri, Ohio, South Carolina, and Tennessee.

Accommodating the Budget Cuts of the 1990s

The Henry Luce Foundation has funded a three-year project: "The Impact of State Budget Cuts on Public Higher Education, 1990-1995: The Cuts are Clear; The Consequences Cloudy." Public higher education in the early 1990s received the worst state budgets in four decades, yet the real impact on students and society, staffing and structure, plans and priorities remains in doubt, because no study has assessed just how public colleges and universities across the country made those cuts. The project will answer the following questions:

Do the reductions of the early 1990s signal a historic shift in state support for public higher education or merely a momentary dissatisfaction with its costs and performance?

Do the responses of state colleges and universities suggest a reordering of priorities and restructuring of operations to reduce costs and raise performance or merely a forced reaction to a temporary crisis?

The study will answer those questions by analyzing the budget actions of state systems of higher education and their campuses in six states: Massachusetts in the Northeast, New York in the Middle States, Wisconsin in the Midwest, Florida in the Southeast, Texas in the South West, and California in the West. It will utilize a survey of leading state, system, and campus policy makers as well as discussion with key actors. The final product will include case studies of the selected states, compare the budget responses, and conclude with lessons learned from the study. The goal is to produce a series of articles and a monograph on this topic.

Performance Reporting

A new proposal has been developed: "State Performance Reports for Public Higher Education: Are They Used to Improve Policies and Performance?" Currently, one third of the states have performance reporting of the results achieved by their public colleges and universities. But the critical question of whether they improved performance or policies remains unanswered, since no comprehensive study has been done of how or even whether state and campus policy makers have used their findings. This study will examine the missing link between publication of the reports and their use in practice. The proposal is to study six of the ten states examined in the 1995 study of the indicators of performance reports by the Education Commission of the States: Colorado, Florida, Kentucky, Maryland, Missouri, New York, Oregon, Tennessee, Texas, and Wisconsin. The goal of the project is to determine, through case studies and surveys, the extent to which these reports have been used by policy makers at the state and campus levels and suggest how they might be used more effectively.

Areas of Expertise

The Public Higher Education Program has expertise, through professionals at the Rockefeller Institute and outside experts, in the following areas:

- State Policy and Budgeting for Higher Education
- Performance Budgeting and Reporting
- Models and Indicators of Institutional Quality
- Student Outcomes Assessment
- Institutional Accreditation and Self-Study Reports
- Multi-Campus University Systems

- Two to Four-Year Transfers, Policies, and Practices
- College and University Leadership and Governance
- Faculty Workload Policies and Collective Bargaining
- Campus Mission, Planning, and Budgeting
- Administrative Leadership and Organization

The Program has experience with the full range of colleges and universities: community and technical colleges, liberal arts campuses, comprehensive institutions, graduate and research oriented universities, and medical schools.

Conferences and Seminars

The Public Higher Education Program conducts conferences and seminars on higher education issues either at the excellent facilities of the Rockefeller Institute, on campuses, or at other locations.

Consulting

Professionals from the Program assisted by other Institute and outside experts, perform consulting contracts for colleges, universities, and other education agencies in the areas of expertise listed above.

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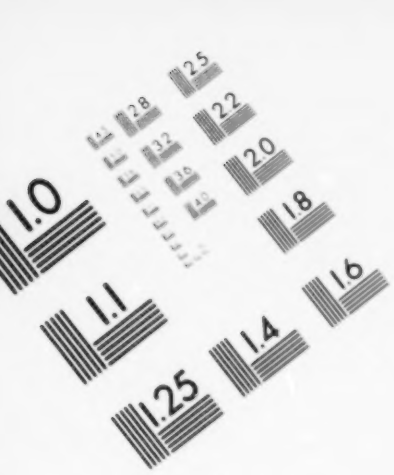

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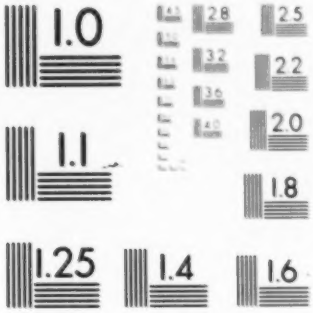

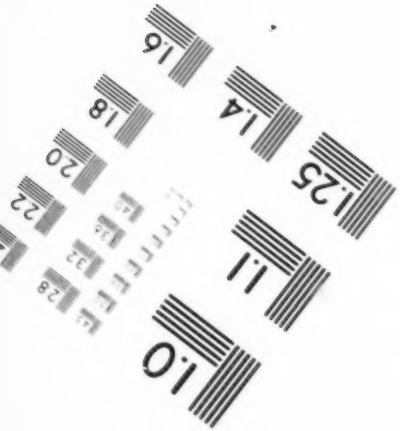

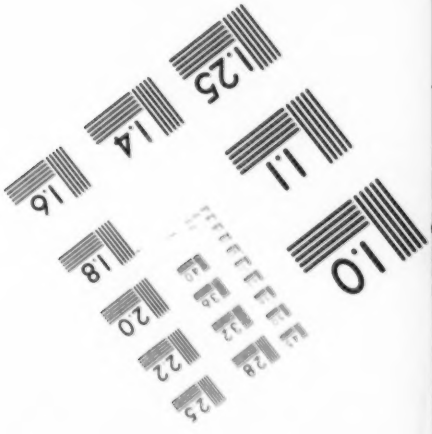

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Performance Indicators

Although the number of performance indicators used in the nine states ranges from a high of thirty-seven to a low of five, they typically run from seven to sixteen. Most states either use the same measures for all campuses or provide an alternative item for two- and four-year institutions.

Six of the nine states set statewide indicators for all institutions or campus types, but three allow colleges or universities to chose at least one of their own indicators. These performance programs slight input measures, which reflect the resources received, in favor of output and outcome indicators, which stress results. However, over forty percent of the indicators are process measures, which focus on the method of delivering programs and services. This reliance on process items reflects the difficulty of devising indicators that measure results in higher education. It also suggests, to some extent, the popularity of the total quality and good practices movements, which stress improving services to clients and students. The indicators imply a concern for efficiency and quality, but they suggest a different notion of quality than that traditionally held in academic circles. Quality in higher education has long been awarded only to rich and famous institutions, with the most resources, the brightest students, the best researchers. The performance indicators suggest a new notion of quality based on services to students and society rather than resources and reputations.

Indicators in all nine states stress undergraduate education. The indicator choices reveal more diversity than commonalty. Only retention and graduation rates appear in the performance programs of nearly all the states. Other indicators used by half or more of the states include test scores on professional exams, transfers between two- and four-year campuses, faculty teaching load, and credits on graduation/time to degree. Indicators for four-year institutions also favor use of technology/distance learning; those for two-year colleges often add job placements.

Indicator Weights, Standards, and Funding

Two of the nine states use the same funding weights for all indicators, while seven have designated, but different, weights for their measures. Most states choose institutional improvement as their success standards, though, at times, with thresholds and targets. Some allow an alternate choice of comparisons with the performance of state or national peers. South Carolina mandated the unique concept of 100 percent funding based on performance. The other states allocate from less than 1 percent to 3.4 percent of the tax support for the operating expenses of their public colleges and universities. Six states restrict performance funding to additional appropriations beyond base budgets, while three require reallocation of all appropriations.

Opinions on Performance Funding

Our recent survey of the attitudes toward performance funding of state and campus leaders in the nine states indicated more agreement than anticipated:

- Respondents consider retention/graduation rates, job placement, licensure exam scores, and employer satisfaction surveys as the most appropriate performance funding indicators, and administrative size/cost, time-to-degree, and student ethnic and gender diversity as the least appropriate.
- Selection of performance indicators and success standards and the protection of mission diversity are seen as the major difficulties in performance funding.
- Improved higher education, increased accountability, and emphasis on results are perceived as the major advantages of performance funding; the difficulty of measuring results in higher education is seen as its main disadvantage.
- State policy makers tend to forecast a favorable future for performance funding, while campus representatives think its future is uncertain.

Recommendations

Our study suggests the following recommendations to state and campus policy makers:

1. Performance funding requires collaboration between state and campus policy makers to ensure consideration of both external and internal concerns.
2. State prescription of indicators is too restrictive, but a general mandate can convey the sense of seriousness and inevitability required to spur campus reforms.
3. Government policy makers must realize that achieving results in higher education takes time; and campus leaders must recognize that improving performance should not take forever.
4. The choice of performance indicators should reject the belief that external accountability and institutional improvement — and efficiency and quality — are conflicting rather than complementary goals.
5. The choice of indicators should reject the resource and reputation model of institutional excellence and reflect service to students, the state and society.
6. Some common indicators combined with several separate measures for two- and four-year institutions would emphasize their different missions without neglecting their common goals.
7. Institutional improvement with thresholds and targets seem the best and the fairest standard of success.
8. Small sums allocated to performance funding can produce results without causing budget instability.

Funding for Results: Fad or Trend?

It is too soon to tell whether funding public higher education for results is a fad or a trend. Critics claim that it will go the way of the Program Planning Budgeting, Zero-based Budgeting, Management by Objectives, and other efforts to rationalize government budgeting. Advocates assert that constrained resources and competing demands will push governments to consider costs/benefits and program results in funding allocations.

One conclusion is clear: *the desirability of performance funding, in theory, is equaled by its difficulty in practice*. It requires a level of collaboration, patience, and persistence that is seldom found in government decision making. The critical importance of higher education to students and states in a knowledge and information society suggests that both state and campus policy makers should tackle this challenging task. Taxpayers are not likely to accept the concept that results count in every endeavor except government budgeting.

Sources

Joseph C. Burke, *Performance Funding Indicators: Concerns, Values, and Models for Two- Four Year Institutions*. Albany, NY: Rockefeller Institute, 1997.

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Joseph C. Burke and Andreea M. Serban, *Performance Funding and Budgeting for Public Higher Education.* Albany, NY: Rockefeller Institute, 1997.

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Description of The Public Higher Education Program

The Public Higher Education Program seeks practical approaches to the critical issues facing colleges and universities by combining the expertise and effort of practitioners and researchers in higher education with the contributions and concerns of trustees and opinion leaders in government, labor, and business. The Program enlists the major stakeholders in higher education in a common effort to link policy development with pragmatic research, citizen and constituent commitment, and effective implementation. Its goal is to move major policy issues in public higher education from divisive debate to reasoned discussion and, hopefully, to rational resolution.

Public Higher Education is much too important to students, states, and society to be left to partisan politics of state policy makers or the self-interest of campus partisans. Currently, public debate generates more conflict than understanding and divides state colleges and universities from their external publics, who are essential to their support and success. Much of the research on higher education has limited impact, because academic administrators see it as too impractical or controversial. It is not used or even read by trustees, faculty, or government officials because it too often fails to answer their repeated questions or provide realistic suggestions. Efforts at reform have faltered because they have failed to involve all of these parties together in policy formulation and implementation. Failure has also occurred because trustees have not been provided with effective methods for fulfilling their pivotal role of reconciling external demands for fundamental change with the internal needs of collegial governance.

For too long the internal constituents and the external supporters of higher education have talked at, rather than with, one another. At a time when critics, including friends, call for more accountability and better performance, a Public Higher Education Program is needed that can engage all of the natural advocates of educational reform in a reflective search for realistic ways to help higher education become more effective and efficient.

Current Projects

Performance Funding

The Pew Charitable Trusts has funded the Program for a two-year study of performance funding programs in nine states: Arkansas, Colorado, Florida, Kentucky, Minnesota, Missouri, Ohio, South Carolina, and Tennessee.

Accommodating the Budget Cuts of the 1990s

The Henry Luce Foundation has funded a three-year project: "The Impact of State Budget Cuts on Public Higher Education, 1990-1995: The Cuts are Clear; The Consequences Cloudy." Public higher education in the early 1990s received the worst state budgets in four decades, yet the real impact on students and society, staffing and structure, plans and priorities remains in doubt, because no study has assessed just how public colleges and universities across the country made those cuts. The project will answer the following questions:

Do the reductions of the early 1990s signal a historic shift in state support for public higher education or merely a momentary dissatisfaction with its costs and performance?

Do the responses of state colleges and universities suggest a reordering of priorities and restructuring of operations to reduce costs and raise performance or merely a forced reaction to a temporary crisis?

The study will answer those questions by analyzing the budget actions of state systems of higher education and their campuses in six states: Massachusetts in the Northeast, New York in the Middle States, Wisconsin in the Midwest, Florida in the Southeast, Texas in the South West, and California in the West. It will utilize a survey of leading state, system, and campus policy makers as well as discussion with key actors. The final product will include case studies of the selected states, compare the budget responses, and conclude with lessons learned from the study. The goal is to produce a series of articles and a monograph on this topic.

Performance Reporting

A new proposal has been developed: "State Performance Reports for Public Higher Education: Are They Used to Improve Policies and Performance?" Currently, one third of the states have performance reporting of the results achieved by their public colleges and universities. But the critical question of whether they improved performance or policies remains unanswered, since no comprehensive study has been done of how or even whether state and campus policy makers have used their findings. This study will examine the missing link between publication of the reports and their use in practice. The proposal is to study six of the ten states examined in the 1995 study of the indicators of performance reports by the Education Commission of the States: Colorado, Florida, Kentucky, Maryland, Missouri, New York, Oregon, Tennessee, Texas, and Wisconsin. The goal of the project is to determine, through case studies and surveys, the extent to which these reports have been used by policy makers at the state and campus levels and suggest how they might be used more effectively.

Areas of Expertise

The Public Higher Education Program has expertise, through professionals at the Rockefeller Institute and outside experts, in the following areas:

- State Policy and Budgeting for Higher Education
- Performance Budgeting and Reporting
- Models and Indicators of Institutional Quality
- Student Outcomes Assessment
- Institutional Accreditation and Self-Study Reports
- Multi-Campus University Systems

- Two to Four-Year Transfers, Policies, and Practices
- College and University Leadership and Governance
- Faculty Workload Policies and Collective Bargaining
- Campus Mission, Planning, and Budgeting
- Administrative Leadership and Organization

The Program has experience with the full range of colleges and universities: community and technical colleges, liberal arts campuses, comprehensive institutions, graduate and research oriented universities, and medical schools.

Conferences and Seminars

The Public Higher Education Program conducts conferences and seminars on higher education issues either at the excellent facilities of the Rockefeller Institute, on campuses, or at other locations.

Consulting

Professionals from the Program assisted by other Institute and outside experts, perform consulting contracts for colleges, universities, and other education agencies in the areas of expertise listed above.

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